

Health Insurance Rate Review: Lowering Costs for American Consumers & Businesses

For more than a decade, health insurance premiums have risen rapidly, straining the pocketbooks of American families and businesses. Since 1999, the cost of coverage for a family of four has climbed 131 percent.^[i] These increases have forced families and employers to spend more money, often for less coverage. Many times, insurance companies have been able to raise rates without explaining their actions. In most cases, consumers receive little or no information about proposed premium increases, and aren't told why health insurance companies want to raise rates.

The Affordable Care Act is bringing an unprecedented level of scrutiny and transparency to health insurance rate increases. The Act ensures that, in any State, any proposed rate increase by individual or small group market insurers at or above 10 percent will be scrutinized by independent experts to make sure it is justified. This analysis will help moderate premium hikes and lower costs for individuals, families, and businesses that buy insurance in these markets. Additionally, insurance companies must provide easy to understand information to their customers about their reasons for unreasonable rate increases, as well as publicly justify and post on their website any unreasonable rate increases. These steps allow consumers to know why they are paying higher rates.

The Affordable Care Act makes \$250 million available to States to take action against insurers seeking unreasonable rate hikes. To date, 43 States and the District of Columbia are using \$44 million in grants provided by HHS to help them improve their oversight of proposed health insurance rate increases.

State rate review activities are paying off for consumers:

- Rhode Island's Insurance Commissioner used his rate review authority to reduce a proposed increase by a major insurer in that State from 7.9 percent to 1.9 percent.
- Californians were saved from rate increases totaling as high as 87 percent after a California insurer withdrew its proposed increase after scrutiny by the State Insurance Commissioner.
- Nearly 30,000 North Dakotans saw a proposed increase of 23.7 percent cut to 14 percent following a public outcry.
- Connecticut's Insurance Department rejected a proposed 20 percent rate hike by one of the State's major insurers.

New Tools Will Help States, Consumers

Starting September 1, 2011, insurers seeking rate increases of 10 percent or more for non-grandfathered plans in the individual and small group markets are required to publicly disclose the proposed increases and the justification for them. Such increases will be reviewed by State or Federal independent experts to determine whether they are unreasonable. In future years, the threshold for review will be set on a State-by-State basis using data that reflect insurance and health cost trends in each State. And an easy-to-access, consumer-friendly disclosure form explaining the proposed increases will also be made publicly available through HHS, State and/or insurer websites.

The rate review regulations work in conjunction with other parts of the Affordable Care Act that will also hold premiums down. The law requires insurers to spend at least 80 percent of premium dollars on direct medical care or to improve the quality of care instead of on overhead, advertising, and executive salaries and bonuses. If an insurer fails to meet that test, they must pay a rebate to their enrollees. This “medical loss ratio” regulation, released on November 22, 2010, makes the health insurance marketplace more transparent and increases the value consumers receive for their money.

States with Effective Rate Review Programs

HHS encourages States to conduct rate review and has worked with States to strengthen their programs. As detailed in the [rate review regulation](#) finalized on May 19, 2011, States with effective rate review systems will conduct the reviews, but if a State lacks the resources or authority to conduct the required actuarial reviews, HHS will conduct them. An effective rate review system must:

- Receive sufficient data and documentation concerning rate increases to conduct an examination of the reasonableness of the proposed increases.
- Analyze twelve factors listed in the [rate review regulation](#).
 - Medical cost trend changes by major service categories;
 - Changes in utilization of services (i.e., hospital care, pharmaceuticals, doctors’ office visits) by major service categories;
 - Cost-sharing changes by major service categories;
 - Changes in benefits;
 - Changes in enrollee risk profile;
 - Impact of over- or under-estimate of medical trend in previous years on the current rate;

- Reserve needs;
- Administrative costs related to programs that improve health care quality;
- Other administrative costs;
- Applicable taxes and licensing or regulatory fees;
- Medical loss ratio;
- The issuer's risk-based capital status relative to national standards.
- Make a determination of the reasonableness of the rate increase under a standard set forth in State statute or regulation.

To determine whether a State met these standards, HHS reviewed all available documentation, and met with State regulators and their staff to verify the information and obtain any updates. CMS will continue to accept information from States and monitor States in order to ensure correct classification. CMS can reevaluate the status of this list as changes are made in each State.

As of July 1, 2011:

- 43 States, the District of Columbia and 1 U.S. territory have effective rate review in at least one insurance market;
- 40 States, the District of Columbia and the U.S. Virgin Islands have effective review for all insurance markets and issuers.
- In three States, the Federal government will partner with the State to conduct reviews; and
- The Federal government will conduct review in seven States and four U.S. territories until those areas are able to strengthen their review processes and authorities.
- Resources and assistance are available to States and territories to help strengthen their review processes.

List of Effective Rate Review Programs

The list below indicates whether Federal or State process will be used to review proposed insurance rate increases.

STATE	Individual Market	Small Group Market	Effective Rate Review Program
Alabama	Federal	Federal	No
Alaska*	State	State	Yes
Arizona	Federal	Federal	No
Arkansas	State	State	Yes
California	State	State	Yes
Colorado	State	State	Yes
Connecticut	State	State	Yes

Delaware	State	State	Yes
District of Columbia	State	State	Yes
Florida	State	State	Yes
Georgia	State	State	Yes
Hawaii	State	State	Yes
Idaho	Federal	Federal	No
Illinois	State	State	Yes
Indiana	State	State	Yes
Iowa	State	Federal	Partial
Kansas	State	State	Yes
Kentucky	State	State	Yes
Louisiana	Federal	Federal	No
Maine	State	State	Yes
Maryland	State	State	Yes
Massachusetts	State	State	Yes
Michigan	State	State	Yes
Minnesota	State	State	Yes
Mississippi	State	State	Yes
Missouri	Federal	Federal	No
Montana	Federal	Federal	No
Nebraska	State	State	Yes
Nevada	State	State	Yes
New Hampshire	State	State	Yes
New Jersey	State	State	Yes
New Mexico	State	State	Yes
New York	State	State	Yes
North Carolina	State	State	Yes
North Dakota	State	State	Yes
Ohio	State	State	Yes
Oklahoma	State	State	Yes
Oregon	State	State	Yes
Pennsylvania	State	Federal	Partial
Rhode Island	State	State	Yes
South Dakota	State	State	Yes
South Dakota	State	State	Yes
Tennessee	State	State	Yes
Texas	State	State	Yes
Utah	State	State	Yes
Vermont	State	State	Yes
Virginia	State	Federal	Partial
Washington	State	State	Yes
West Virginia	State	State	Yes
Wisconsin	State	State	Yes
Wyoming	Federal	Federal	No

Territories			
American Samoa	Federal	Federal	No
Guam	Federal	Federal	No
Northern Marianas Islands	Federal	Federal	No
Puerto Rico	Federal	Federal	No
Virgin Islands	State	State	Yes

*Note: Alaska will have effective rate review authority in all markets on January 1, 2012 per state statute. Until that date, CMS will review Alaskan commercial plans and the state will review Blue Cross Blue Shield plans.